Congress of the United States
House of Representatives
Washington, DC 20515

January 30, 2003

Financial Accounting Standards Board
MP&T Director - File Reference 1101-001
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856

Dear Sir or Madam:

In response to the Financial Accounting Standards Board's recent Invitation to Comment on accounting for employee stock options, we write to express our strong opposition to any proposal which would mandate the expensing of broad-based stock option plans. We appreciate the opportunity to provide our comments and request that FASB give its highest consideration to them.

Events of the past year have eroded investor confidence and contributed to significant concern about the adequacy of our laws, rules and policies governing corporate oversight, financial reporting, and accounting practices. Restoring investor trust, revitalizing our capital markets, eliminating corporate fraud and abuse, and growing America's economy are objectives each of us shares.

We do not wish to set accounting standards. However, in light of the proposed International Accounting Standards Board (IASB) standard that would mandate the expensing of employee stock options, and FASB's close coordination with IASB, we believe it is important to express our strong concerns about an approach that would limit transparency, truthfulness and accuracy in financial reporting, precisely at a time when America and its investors need these qualities the most. The public interest will not be served by an accounting standard that results in the disclosure of inaccurate corporate financial information and a flawed picture of company performance.

It is apparent to us that a mandatory expensing standard lacks a clear and widely accepted accounting rationale. Accounting experts have vastly divergent views as to whether employee stock options should be accounted for as a cost to be deducted from earnings. Many respected, independent experts find that the "cost" of employee stock options is already accounted for and disclosed to investors through diluted earnings per share. Investors would be better served by full and complete disclosure of this diluted earnings per share number.

Additionally, pricing models currently available, such as Black-Scholes or slight variations on it, were designed for entirely different kinds of options that have little in common with employee stock options. The same model can produce widely differing results depending on the particular guesstimates a company decides to use. Highly subjective numbers that are not reliable or meaningful are of no use to investors, and in fact, hurt their ability to make informed decisions. We concur with the view recently expressed by one expert that "[i]f anything, expensing options may lead to an even more distorted picture of a company's economic position and cash flows than financial statements currently paint." (William Sahlman, Professor of Business Administration, Harvard Business School, "Expensing Options Solves Nothing," *Harvard Business Review*, December 2002.)

Moreover, mandatory expensing would effectively destroy broad-based stock option plans, which enhance financial opportunities for workers at all levels, stimulating economic growth and productivity. Broad-based employee stock options plans play a vital role in America's economy, helping employees, shareholders, and companies alike. A recent study found that broad-based plans - which grant options to most, if not all, employees - have bestowed significant economic benefit on tens of thousands of "rank and file" workers over the past two decades, enhanced productivity, spurred capital formation, and fueled the growth of some of our nation's most innovative companies. The Rutgers University researchers make a compelling case that such plans are a form of "partnership capitalism," that "makes most companies more competitive and creates more wealth for shareholders." (Blasi, Kruse, and Bernstein, <u>In the Company of Owners</u>)

Commendably, FASB has just recently required more timely and extensive disclosure of information about employee stock options. In light of the serious negative consequences and dislocation likely to arise from mandated expensing, it seems more prudent to allow the new disclosures to work and perhaps, supplement them further with additional and more investor-friendly information. Accurate, timely and rigorous investor-friendly disclosures would do more to inform investor decision-making than new overlapping mandates hastily applied.

Accounting principles that foster transparency, truthful and accurate financial reporting, and meaningful disclosure are critically important to help investors make informed investment decisions, and to foster efficient and growing capital markets. We support accounting principles that serve the public interest in this way, and we do not think a mandatory expensing standard meets this test.

At a time when our government is searching for new ways to stimulate the economy, we need a clear vision about the importance of broad-based stock option plans to the nation's entrepreneurial soul and the workers and investors who are part of it. We should adopt policies that encourage and expand the availability of broad-based stock option plans, not destroy them

Sincerely,

Pete Sessions	Ron Kind
Jennifer Dunn	Mike Honda
Rick Boucher	Bob Goodlatte
Lamar Smith	Tom Davis
[illegible]	Jane Harman
[illegible]	David Wu
Joe Barton	Rick Larsen
Amo Houghton	[illegible]

George R. Nethercutt

Darlene Hooley

Mike Simpson

Greg Walden

C.L. "Butch" Otter

Heather Wilson

Bob Etheridge